

State Board of Electricity

Financial Audit

For the Period July 1, 1994, through December 31, 1996

June 1997

*This document can be made available in
alternative formats, such as large print,
Braille, or audio tape, by calling 296-1727.*

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-31



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Richard Burud, President
State Board of Electricity

Members of the State Board of Electricity

Mr. John Schultz, Executive Secretary
State Board of Electricity

We have audited the State Board of Electricity for the period July 1, 1994, through December 31, 1996, as further explained in Chapter 1. Our audit scope included license and inspection fees, payroll, and contracted inspection services. The following Summary highlights the audit objectives and conclusions. We discuss our concerns more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit.

This report is intended for the information of the Legislative Audit Commission and the management of the board. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 4, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 28, 1997

Report Signed On: May 29, 1997

SUMMARY

State of Minnesota
Office of the Legislative Auditor
1st Floor Centennial Building
658 Cedar Street • St. Paul, MN 55155
(612)296-1727 • FAX (612)296-4712
TDD Relay: 1-800-627-3529
email: auditor@state.mn.us
URL: <http://www.auditor.leg.state.mn.us>

State Board of Electricity

Financial Audit

For the Period July 1, 1994, through December 31, 1996

Public Release Date: June 4, 1997

No. 97-31

Agency Background

The State Board of Electricity exists to protect the public by ensuring that individuals involved in any aspect of electrical work meet and maintain the qualifications, standards, and professionalism necessary to competently complete such work. The board consists of 11 board members appointed by the Governor. The board appointed Mr. John Schultz to serve as its executive secretary.

The board finances its operations through revenues generated from licensing and inspection fees. The board sets its fees to recover all costs of operations. The board deposits its receipts into the state's Special Revenue Fund as dedicated revenue.

Audited Areas and Conclusions

Our audit scope included license and inspection fees, payroll, and disbursements to contracted inspectors for the period July 1, 1994, through December 31, 1996.

The State Board of Electricity designed and implemented controls to provide reasonable assurance that the appropriate license and inspection fees were assessed and collected. However, the board did not have adequate controls to provide reasonable assurance that the license and inspection fees collected were adequately safeguarded or accurately reported in the accounting records. In addition, the board did not deposit license and inspection fee receipts in a timely manner, nor did the board void outdated request for electrical inspection forms.

The State Board of Electricity designed and implemented internal controls that provided reasonable assurance that expenditures for contract inspector services and payroll were properly authorized, supported, and accurately reported in the accounting records. In addition, the board appropriately contracted with the electrical inspectors to conduct inspections in accordance with applicable legal provisions. Also, employee timesheets were adequately documented and approved, including the use of employee leave balances. However, the board was not verifying that its expenditures for inspections were accurately recorded on the state's accounting system (MAPS). The board did not reconcile the payroll register report to timesheets and pay rates.

State Board of Electricity

Table of Contents

Chapter 1. Introduction	Page 1
Chapter 2. Licensing and Inspection Fees	3
Chapter 3. Contract Inspection Services and Payroll	11
Board Response	15

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Lori Kloos, CPA	Auditor-in-Charge
Shane Smeby	Auditor
Susan O'Connell	Auditor

Exit Conference

We discussed the results of the audit at an exit conference with the following State Board of Electricity staff held on May 16, 1997:

John Schultz	Executive Secretary
--------------	---------------------

State Board of Electricity

Chapter 1. Introduction

The State Board of Electricity is a service and regulatory agency which licenses electricians, electrical contractors, and alarm and communication contractors. It also inspects new electrical installations in all areas of the state except when a city, by ordinance, provides its own electrical inspections. The primary purpose of the board is to assure consumers that electrical wiring is installed in conformance with accepted standards of construction and to protect the public from incompetent electrical installers.

The State Board of Electricity operates under Minn. Stat. Sections 326.241 through 326.248, known as the Minnesota Electrical Act. The board consists of 11 members appointed by the Governor. The board currently has 22 employees who are under the supervision of the Executive Secretary, Mr. John Schultz. The board contracts with electricians who perform electrical inspections throughout the state. There are currently 67 inspectors under contract. As of July 1, 1995, the board began using the state's new Minnesota Accounting and Procurement System (MAPS) to account for its financial activities. Prior to that time, the board utilized the old statewide accounting system (SWA).

License and inspection fees finance the operations of the State Board of Electricity. The board deposited revenues collected into the Special Revenue Fund. Inspection fees were deposited into an inspection escrow account within the fund and subsequently disbursed to inspectors upon completion of inspections. Table 1-1 presents financial activity of the State Board of Electricity for fiscal year 1996. The Inspection Escrow Fund balance represents the deferred portion of inspection fees collected and held for contract inspections not yet performed.

Table 1-1
Summary of Financial Activity
For the Fiscal Year Ending June 30, 1996

	Inspection <u>Escrow</u>	<u>Operations</u>	<u>Total</u>
Fund Balance- 7/1/95 (1)	\$2,127,478	\$1,190,001	\$3,317,479
Revenues (2)	4,012,743	1,612,470	5,625,213
Funds Available	6,140,221	2,802,471	8,942,692
Expenditures (2)	<u>3,940,379</u>	<u>1,487,518</u>	<u>5,427,897</u>
Fund Balance - 6/30/96 (3)	<u>\$2,199,842</u>	<u>\$1,314,953</u>	<u>\$3,514,795</u>

Source: (1) Statewide Accounting as of 10/13/95.

(2) Fiscal Year 1996 MAPS revenues and expenditures.

(3) Minnesota Accounting and Procurement System as of June 30, 1996.

State Board of Electricity

This page intentionally left blank.

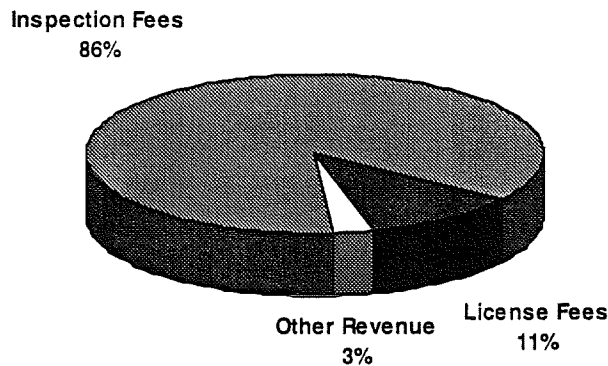
Chapter 2. Licensing and Inspection Fees

Chapter Conclusions

The State Board of Electricity designed and implemented controls to provide reasonable assurance that the appropriate license and inspection fees were assessed and collected. However, the board did not have adequate controls to provide reasonable assurance that the license and inspection fees collected were adequately safeguarded or accurately reported in the accounting records. In addition, the board did not deposit license and inspection fee receipts in a timely manner, nor did the board void outdated request for electrical inspection forms.

Responsibilities of the State Board of Electricity include electrical inspections of all new electrical installations throughout the state. The board's responsibilities do not extend to any political subdivisions which, by ordinance, provide their own electrical inspection services. Additional responsibilities of the board include licensing various classes of electricians, electrical contractors, alarm and communication contractors, and elevator contractors throughout the state. Inspection and license fees account for 97 percent of total revenues each year. Figure 2-1 shows an overall comparison of revenues received from inspection fee services, licensing fees, and other revenue sources for the audit period.

Figure 2-1
Comparison of Receipt Types
For the Period of July 1, 1994, through December 31, 1996



Source: Fiscal year 1995 SWA receipts and MAPS receipts for the period of July 1, 1995, through December 31, 1996.

State Board of Electricity

With help from a consultant, the board developed its own computer system to account for license and inspection fees. This license and inspection fee system runs on the board's local area network. Employees use this system to process license and inspection fee receipts, track license issuances and renewals, and to generate license and inspection fee accounting reports. It is a relational database system and not an accounting system.

The board also uses the state's accounting system called MAPS (Minnesota Accounting and Procurement System). MAPS resides on the state's central mainframe computer center, commonly referred to as InterTech. MAPS consists of two separate computerized applications. Government Financial System (GFS) is the new accounting system, and the Advanced Government Purchasing System (AGPS) is the new purchasing system. These two systems work both interactively and independently to account for most of the state's financial activities. The board enters summarized accounting information into MAPS from its licensing and inspection fee system.

Inspection Fees

A request for electrical inspection form must be submitted to the board at or before the start of any electrical installation. The request serves two purposes: First, it allows electrical work to be performed. Second, it establishes a period of time during which the electrical work is subject to the board's inspection. In addition to the request, the electrical contractor, installer, special electrician, or owner making the installation must attach the required fee. Inspection fees are set by statute and vary based on the type of electrical installation. The board retains approximately 15 percent of inspection fees to finance its operations. The remaining fee is deposited to the inspection escrow account for payment to the electrical inspectors. According to board rule, request for electrical inspection forms are void 18 months from the date of filing and, if the electrical work has not been completed, a new request for electrical inspection must be filed.

At the time of inspection, an inspector contracted by the board verifies that the correct inspection fee was submitted. If the inspection fee amount submitted was insufficient, the inspector initiates an order for payment form. Inspectors usually collect any additional fees associated with order for payment forms and forward them to the board. In most cases, inspectors do not receive payment from the board until the inspection work is completed. However, on very large inspections, inspectors may receive payment based on their work completed.

Licensing Fees

The board requires all classes of licensees to pass an examination, administered by the board, prior to obtaining a license. Licensees must also provide proof of meeting the required levels of work experience and technical knowledge. In addition, the board requires some licensee types to post a bond and provide proof of liability coverage.

The board collects various annual license fee types on a biennial basis. Licenses are issued or renewed for a two year period. Electrical contractor licenses expire March 1 of even-numbered years. Alarm and communication contractor licenses expire July 1 of odd-numbered years. The board prorates the fees for certain licenses when issued after the dates discussed above. Other types of licenses expire two years from the date initially issued. Table 2-1 presents the number

State Board of Electricity

of biennial licenses issued for each license type in fiscal year 1996. This table does not show total licenses presently in effect. According to the board's biennial report, it has 18,237 licenses in effect as of June 30, 1996.

Table 2-1
Biennial Licenses Issued by License Type
Fiscal Year 1996

<u>License Type</u>	<u>Number of New Licenses</u>	<u>Number of Renewals</u>	<u>Total Licensees</u>
Alarm & Communication	83	56	139
Electrical Contractors	122	1,963	2,085
Master Class A	223	29	252
Master Class B	0	2	2
A Journeyman	433	4,825	5,258
Elevator Constructor	8	221	229
Lineman	1	59	60
B Journeyman	0	76	76
A Installer	1	2	3
B Installer	0	7	7
Maintenance	15	309	324
Total	<u>886</u>	<u>7,549</u>	<u>8,435</u>

Source: State Board of Electricity licensing data.

Audit Scope and Objectives

Our review of the State Board of Electricity's inspection and license fee revenues focused on the following questions:

- Did the board design and implement controls to provide reasonable assurance that the appropriate license and inspection fees were assessed and collected, adequately safeguarded, and accurately reported in the accounting records?
- Did the board comply with finance-related legal provisions over inspection and license fees tested?

To answer these questions, we interviewed staff members and observed the board's receipt collection process. We also analyzed revenue fluctuations that occurred over the audit period, compared amounts recorded on the board's license and inspection fee system to amounts in MAPS, and tested a sample of license and inspection fee receipts. We also interviewed the board's information system consultant and reviewed security access to the board's local area network.

Conclusions

The State Board of Electricity designed and implemented controls to provide reasonable assurance that the appropriate license and inspection fees were assessed and collected. However, the board did not have adequate controls to provide reasonable assurance that the license and

State Board of Electricity

inspection fees were adequately safeguarded or accurately reported in the accounting records. As discussed in Finding 1, the board did not properly safeguard receipts or make timely bank deposits. Also, as discussed in Finding 2, the board did not complete important reconciliations to ensure the accuracy and completeness of its accounting records. Finding 3 discusses incompatible functions and controlling access to the board's computer system. In addition, for inspection fees, the board did not comply with Minn. Rules 3800.3780, as further explained in Finding 4.

1. The board's controls over license and inspection fees were inadequate.

The State Board of Electricity did not adequately safeguard its incoming receipts. Checks coming through the mail were not restrictively endorsed at the time they were received. During the day, checks were kept in an unlocked file cabinet in which employees had access. In addition, the accountant's duties were not adequately separated. Also, the board did not deposit all receipts promptly according to Minn. Stat. Section 16A.275.

When license renewals and applications and inspection requests were received through the mail, the board sorted and batched the checks and forms according to type. Checks received at this time were not restrictively endorsed or date stamped, but placed in an unlocked file cabinet until the board could process the license renewal, application, or request. Checks remained in the unlocked file cabinet (this cabinet was locked at night), located in a high-traffic area of the board office until the board could input the license or inspection information into its computer system. After the information was posted, checks were restrictively endorsed and prepared for deposit.

The board did not deposit checks in a timely manner. The board indicated that at times, between \$300,000 and \$500,000 in receipts remained in the file cabinet. There were also times when three to four weeks passed before checks were processed and deposited. These problems occurred in the summer of 1996 and persisted through December of 1996. The board explained that it received a deluge of request for electrical inspection forms during the summer months of 1996 due to load management devices being installed on air conditioners. The board was unable to keep up with the processing of the increased amount of requests received until December of 1996.

The accountant also maintained the board's accounting records, performed reconciliations of the board's accounting records, and made the daily deposits. To maintain an adequate separation of duties, the accounting or record-keeping function should be maintained by an individual not having access to or responsibility for cash handling duties, such as depositing checks.

Minn. Stat. Section 16A.275 provides that "receipts should be deposited daily or when they total \$250." As a result, the board's receipts were susceptible to theft. In addition, the state lost the opportunity to earn interest on its funds. To prevent this occurrence in the future, a log of receipts could be prepared to enable the board to enter the appropriate information into its system at a later time, while maintaining the ability to make timely deposits.

State Board of Electricity

Recommendations

- *The board needs to adequately safeguard receipts by keeping checks physically secure, restrictively endorsing checks immediately, and preparing a log of all receipts.*
- *The board should assign the cash handling duties within the accounting position to another individual not responsible for the record-keeping function.*
- *The board should deposit receipts of \$250 or more on a daily basis as required by Minn. Stat. Section 16A.275.*

2. The board did not verify its licensing and inspection activity to receipts collected and deposited.

The board did not reconcile business activity recorded on its license and inspection system to MAPS. The board uses the receipt information entered into the license and inspection system to generate new or renewal licenses and to track request for electrical inspection forms submitted. The board did not verify that new license and renewal receipts entered into the system agreed with receipts shown in MAPS. In addition, the board did not verify that inspection fees recorded in its computer system agreed to MAPS. These reconciliations provide the board with the means to ensure that license and inspection fees recorded in the license and inspection system were properly deposited and recorded in the appropriate MAPS account.

Recommendation

- *The board should perform monthly reconciliations of its license and inspection fee system to MAPS.*

3. The board did not separate incompatible functions within its license and inspection fee system or its accounting section and did not control access to computer resources and data.

The board's consultant and its accountant performed, or had the ability to perform, incompatible information system and accounting duties. Board employees had access to raw data files and could access all information in the license and inspection fee system. In addition, employees were not prompted to change their passwords.

The board delegated its security administration duties to a consultant. The consultant had access to all data and computer resources, including the license and inspection fee system. In addition, the consultant had clearance to make and implement security decisions without independent oversight from board employees. The board did not have a staff member actively involved in these functions or a staff member with the technical knowledge needed to work with and understand these systems. In addition, no documentation or programming standards existed for

State Board of Electricity

the system and the board was dependent on the consultant to solve system problems. The ability to grant access to computer resources and sensitive data is an important responsibility.

We noted that many board employees had more clearance than they needed to complete their job responsibilities. The license and inspection fee system runs on a local area network. This local area network had a security module that could be used to limit access to sensitive computer resources and data. However, the board was not using the network security module effectively. For example, we found that:

- Every network user had clearance to change or delete all of the data underlying the license and inspection fee system. Employees should use secured menus within the license and inspection fee system to update, change, or delete data. Giving users clearance to modify or delete data without using the appropriate menus is a security risk and can result in a loss of data integrity.
- Two board employees, in addition to the consultant and one of its employees, had a special "supervisory" privilege. This privilege gave these employees complete access to all data and computer resources. For example, the board's accountant had supervisory rights to the board's information systems. Thus, the accountant had full access to both the license and inspection fee system and MAPS and could go into any part of the system to make changes to or add and delete data. Supervisory privileges are normally only given to people who perform network administration duties, such as entering security transactions. As a precautionary measure, most network administrators also have a second non-supervisory user account for activities that do not require the supervisory privilege. Giving users continuous supervisory privileges is extremely risky and could lead to a disastrous loss of data. This is particularly true at the State Board of Electricity, where employees with this privilege were not trained network administrators.
- Employees were not required to change their passwords. The network security module uses passwords to confirm the identity of individual users. This security module had an optional setting to force users to change their password after a certain number of days. However, the board did not use this option. Retaining the same password indefinitely increases the possibility that unauthorized users could gain access to the system and remain undetected.

Recommendations

- *The board should make all computer access decisions and take steps to limit the security clearance of consultants.*
- *The board should limit each user's computer access to the specific resources and data needed to fulfill the user's job responsibilities. The accountant should not have supervisory rights to the board's information system.*
- *The board should require employees to change their password periodically.*
- *The board should establish technical and user documentation standards.*
- *The board should provide training for employees on the information system, this includes training regarding policies and procedures on the use of the system.*

State Board of Electricity

4. The board did not void requests for electrical inspections as required by board rule.

The board had not voided certain requests for electrical inspections with inspection fees of \$100 or less after 18 months from the original filing date. Only after the board was certain that projects were abandoned did they void a request. We found four instances where requests for inspections were not void after 18 months from the original filing date. In the most extreme instance, the request had been filed December 7, 1992, but the final inspection was not completed until November 11, 1996. This request remained on file at the board; however, the board did not void the request.

Minn. Rules 3800.3780 provides that a "request for inspection certificates on installations with inspection fees of \$100 or less are void 18 months from the original filing date." At that time, a refund should be issued on the voided request.

Recommendation

- *The board should comply with Minn. Rule 3800.3780 and void request for electrical inspection forms filed more than 18 months previously.*

State Board of Electricity

This page intentionally left blank.

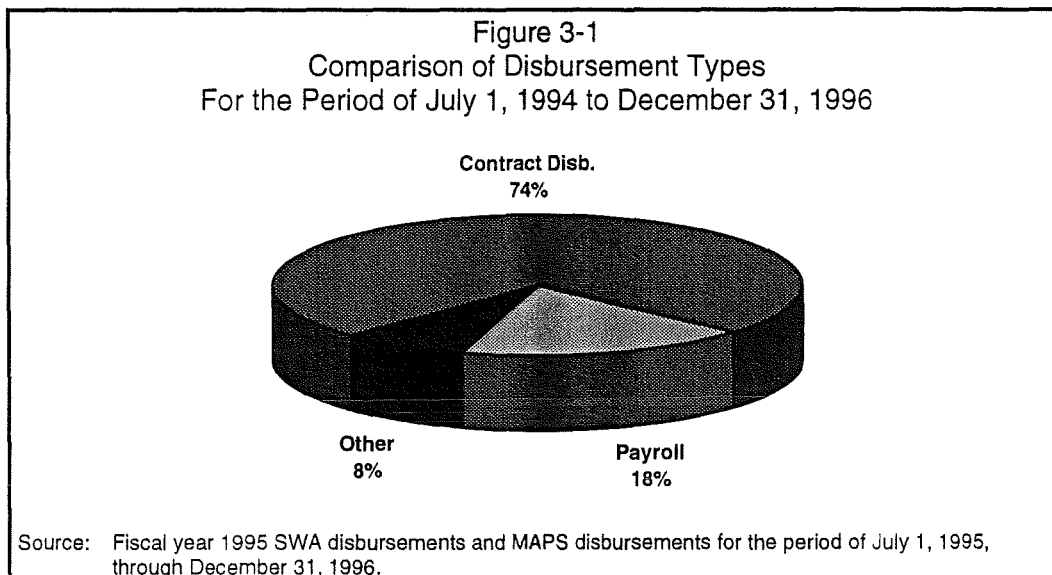
Chapter 3. Contract Inspection Services and Payroll

Chapter Conclusions

The State Board of Electricity designed and implemented internal controls that provided reasonable assurance that expenditures for contract inspector services and payroll were properly authorized, supported, and accurately reported in the accounting records. In addition, the board appropriately contracted with the electrical inspectors to conduct inspections in accordance with applicable legal provisions. Also, employee timesheets were adequately documented and approved, including the use of employee leave balances. However, the board was not verifying that its expenditures for inspections were accurately recorded on the state's accounting system (MAPS). The board did not reconcile the payroll register report to timesheets and pay rates.

The State Board of Electricity annually spends over \$5 million for contract inspector services, payroll, and other miscellaneous disbursements. The largest disbursement category involves payments made for contract inspectors to inspect electrical installations throughout the state (except for areas that provide its own electrical inspection services by ordinance).

Payroll expenditures for the support staff employed by the board represent the second largest class of disbursements. Support staff responsibilities include administering electrician examinations to candidates, licensing and monitoring electricians professional activities and education, and administering the inspection fee program. Figure 3-1 shows the percentage of the board's expenditures by type.



State Board of Electricity

Contract Inspector Expenditures

The State Board of Electricity provided required electrical inspections throughout the state to ensure compliance with accepted electrical standards. The board contracted with licensed electricians around the state to inspect electrical installations as required by statute. These inspectors are not state employees. The board pays contract inspectors a percentage of inspection fees collected by the board for that specific inspection. Electrical inspections are paid for out of the inspection escrow account.

Audit Objectives and Scope

Our review of the State Board of Electricity's expenditures to electrical inspection contractors focused on the following questions:

- Did the board design and implement internal controls to provide reasonable assurance that expenditures to electrical inspection contractors were properly authorized, supported, and accurately reported in the accounting records?
- Did the board appropriately contract with the electrical inspectors to conduct inspections in accordance with applicable legal provisions?

To answer these questions, we interviewed board employees and performed analytical procedures. We also reviewed board contracts with certain electrical inspectors, verified payments under the contract, and noted the bonding requirements. We also reviewed the applicable statutes and rules relating to electrical inspectors.

Conclusions

We found that the State Board of Electricity designed and implemented internal controls that provided reasonable assurance that expenditures for contract inspector services were properly authorized, supported, and accurately reported in the accounting records. However, as explained in Finding 5, the board was not verifying that its expenditures for inspections were accurately recorded on the state's accounting system (MAPS). In addition, the board appropriately contracted with the electrical inspectors to conduct inspections in accordance with applicable legal provisions.

5. The board did not review monthly expenditure information for completeness and accuracy, or consistently perform other internal reconciliation functions.

The board did not verify its monthly expenditures to MAPS, the state's accounting system. The board did not generate and review MAPS reports to ensure that they were accurate and complete and reflected the board's activities. In addition, the board did not consistently complete internal reviews of the subsidiary inspection fee escrow accounts to the control account to ensure accuracy and completeness of those accounts.

State Board of Electricity

Until January of 1996, the board verified its monthly expenditures to either SWA (Statewide Accounting System in use prior to MAPS) or MAPS accounting records. However, in January 1996, the Department of Finance discontinued issuance of the MAPS Disbursement by Vendor by Agency report to the board. The board did not generate this report on its own to enable it to continue reconciling its disbursement records to MAPS. As a result, the board did not ensure that expenditures per the board's accounting records were accurately reported on MAPS.

The board performed monthly audits of subsidiary records for the inspection fee escrow account and reconciled these records to the outstanding electrical inspection requests. The inspection fee escrow account acts as a clearing account for inspection fees. The board credited this account with the percentage of inspection fees due to contract inspectors. All disbursements to contract inspectors were made out of this account. Thus, outstanding inspection request amounts, less the board's share of inspection fees, should ultimately agree with the escrow account amount. The board's policy was to complete these reconciliations monthly. However, we found that these reconciliations were not always completed monthly.

Recommendations

- *The board should work with the Department of Finance to effectively obtain and use MAPS reports for ensuring the completeness and accuracy of its expenditures.*
- *Until the board can effectively verify the accuracy of its expenditures to MAPS, it should complete monthly reconciliations of its subsidiary inspection fee escrow accounts to the outstanding electrical inspection requests.*

Payroll

During the audit period, payroll costs represented about 18 percent of the board's total expenditures each year. The board employed approximately 23 full-time employees during the audit period. The board's employees were represented by four different bargaining agreements. All employees of the board are in the classified service and are compensated pursuant to Minn. Stat. Chapter 43A. The executive secretary is in the unclassified service as provided within Minn. Stat. Chapter 214.

The board processed payroll on the state's Personnel/Payroll System (PPS) through December 1995. In January 1996, the board began processing its payroll on the State Employee Management System (SEMA4), the states new personnel/payroll system.

Audit Objectives and Scope

Our review of the State Board of Electricity's payroll expenditures focused on the following questions:

State Board of Electricity

- Did the board design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records?
- Were board employee timesheets adequately documented and approved, including the use of employee leave balances?

To answer these questions, we interviewed board employees, performed analytical procedures over payroll transactions from year to year, reviewed appropriate bargaining unit agreements, and tested a sample of payroll transactions, including leave requests and timesheets.

Conclusions

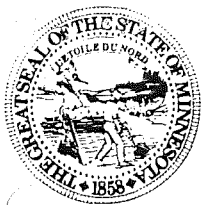
The State Board of Electricity designed and implemented internal controls that provided reasonable assurance that payroll expenditures were properly authorized and accurately reported in the accounting records. In addition, board employee timesheets were adequately documented and approved, including the use of employee leave balances. However, as explained in Finding 6, the board did not compare the payroll register report to timesheets and pay rates.

6. The board did not verify payroll amounts processed in the SEMA4 payroll system.

The board did not review the SEMA4 payroll register to verify the accuracy of its payroll transactions. The Department of Finance Operating Policy and Procedure provides that "state agencies and boards should review the SEMA4 payroll register to verify that payroll transactions were correctly processed." The payroll register contains information on the mass time entry and pay rates used to process each pay period's payroll. The hours and pay rates listed on the payroll register should be verified against authorized timesheets and pay rates. This verification function should be completed by an employee independent of the other payroll functions. Completion of this verification function gives additional assurance that payroll expenditures are not misstated.

Recommendation

- *The board should have an employee independent of the other payroll functions verify time entries and pay rates to the payroll register each pay period.*



State of Minnesota Board of Electricity

May 23, 1997

James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

I have reviewed the results of the audit performed by your office and recognize the value and benefit the process and findings offer. I submit the following comment and response on behalf of the board:

Agency Background.

I was appointed Executive Secretary by the board in October, 1996. Prior to that time I served as Assistant Executive Secretary.

Audited Areas and Conclusions.

The procedures and controls utilized by the board in safeguarding, reporting, and depositing of inspection and licensing fees have changed little over the years and have only recently been identified (correctly) as being inadequate in some areas. This recognition has taken the form of self-awareness as well as identification through this audit process. There are a number of factors that contribute to the inadequacies. Among these are increased volume of inspection requests and licensing activity and are compounded by mail delivery schedule changes and increased data entry procedures, including difficulties in integrating with the MAPS system. Board staff has awareness of these inadequacies and has, or is in process of implementing procedures to address the situation.

Chapter 1. Introduction.

The number of persons the board contracts inspection service from has steadily increased in recent years to meet increased need. Board staff is currently evaluating need and anticipates contracting with two or three additional service providers in FY98. The addition of these additional providers will allow the board to fulfill its inspection responsibility in the most timely manner.

Chapter 2. Licensing and Inspection Fees.

1. The board's control over license and inspection fees were inadequate.

Board staff was not able to process the volume of incoming Request for Electrical Inspection certificates in a timely manner during the summer and fall of 1996 due to a number of reasons. On many days during this time period the board received incoming certificates well beyond daily processing capacity. It was not uncommon for the board to receive individual batches of certificates for load management devices from contractors that contained 100 or more certificates and having a significant number of these erroneously filed with the board because the job was located in a municipal inspection area, which accentuated the volume problem. Procedures have been implemented to enable staff to identify and expedite returns and refunds for erroneously filed certificates in a more efficient manner. The board has also provided specific information to all contractors stressing the need for complete and accurate information on certificates to enable efficient processing. The board has also added an additional work station and staffing to handle the peak volume.

The board will implement procedures to ensure that checks and money orders are restrictively endorsed upon receipt and that they and other forms of payment will be separated from the data entry process at that point. This procedure will allow deposits to be made in a timely manner in accordance with Minnesota Statutes § 16A.275 and not be dependent upon other processing procedures. This will also minimize the risk associated with the safeguarding of these receipts. The board is currently within process of developing and implementing a document imaging system into its processing and archiving of records procedure that will enable the separation of payment from the associated paperwork upon receipt.

The location of the secure file used to store receipts until processing will be moved from the common work area to an area where access will be monitored by supervisory personnel who do not perform an accounting function.

The board will re-assign the deposit delivery duties to an employee who does not perform an accounting function or utilize a service provider to establish separation of the deposit delivery task from the accounting responsibility.

2. The board did not verify its licensing and inspection activity to receipts collected and deposited.

This office has been aware of discrepancies between its accounting information and MAPS and has been working with MAPS and other customer agencies to ensure that transferred monies are identified and reported correctly and thereby not creating imbalances in the different accounting systems.

3. The board did not separate incompatible functions within its license and inspection fee system or its accounting section, and did not control access to computer resources and data.

The board's inspection program has been within an ongoing development and enhancement status extending through the summer of 1996. The complexity of the board's inspection program during development and initial implementation necessitated the need for the degree of access afforded to both the consultant and accounting personnel. Control and access have been restricted to that necessary to maintain and operate the system. Board staff continues to identify minimal access needs for employees based on task and to implement individual authority to that level.

System documentation and user instruction and procedures are within the development process.

The board will implement a procedure wherein password security is assured.

The board has implemented monthly staff meetings to provide a forum to disseminate information and explanation regarding policies and procedures.

4. The board did not void requests for electrical inspection as required by board rule.

In accordance with Minnesota Rules 3800.3780, request for electrical inspection certificates with fees of \$100 or less are void eighteen months from the original filing date. In effect, a request for electrical inspection gives the filing entity "license" to install identified electrical wiring and obligates the board to perform inspections as necessary and upon completion of the installation. The obligation to perform the inspection does not end with the expiration of the request. A number of years ago the board implemented a procedure where installers of electrical wiring covered by a request for electrical inspection that is approaching expiration are contacted by mail and notified of the impending expiration and requesting that the wiring and inspection be completed before expiration, or where the wiring is not required by code, a replacement request for inspection be filed to allow installation of wiring to continue, or where the wiring is not required by code and the project is abandoned, to schedule a confirming inspection. In any case, the board has obligation to ensure through inspection that the installed wiring is in compliance with the required standard. Inspection fees for affected wiring that are collected in excess of that identified in Minnesota Rules 3800.3810 are refunded in accordance with Minnesota Rules 3800.3800. Those inspections not completed within the eighteen month time period are a result of many different circumstances, most of which are not within the control of the board and include protracted installation schedules, seasonal access, lack of cooperation, and in limited instance, excessive work load.

Chapter 3 Contract Inspection Services and Payroll

5. The board did not review monthly expenditure information for completeness and accuracy, or consistently perform other internal reconciliation functions.

In the original implementation of the MAPS system, the board was provided with erroneous coding information which resulted in some reporting inaccuracies and subsequent reconciliation problems. Board staff will review its expenditure coding and reporting format to ensure reconciliation between reports.

The board has, over the last two years, implemented the use of bar-code technology to ensure greater accuracy in the handling and processing of Request for Inspection and Order for Payment forms. This measure, along with programming enhancements, has resulted in significant reduction in input and processing error. This benefit, along with billing schedule breaks that occur in months that contain five Mondays, allows the board to perform reconciliations of inspection subaccounts on a quarterly basis and maintain control and degree of accuracy meeting or exceeding that previously achieved.


6. The board did not verify payroll amounts processed in the SEMA4 payroll system.

The payroll register report prepared by the Central Payroll Division of the Department of Finance will be compared to employee timesheets to verify accuracy. These records will be reviewed, signed, and dated by either the executive secretary or the office manager.

It is the goal of board staff to develop procedures and policies that gain compliance with the findings of this audit and to otherwise conduct the business of the board in the most efficient and proper manner.

Sincerely,

STATE BOARD OF ELECTRICITY


John A. Schultz
Executive Secretary